

ILLINOIS STATE BOARD OF INVESTMENT
Responses to Submitted Questions: Emerging Market Equity Manager

This document serves as a formal response to the questions submitted through the process established by the Illinois State Board of Investment (“ISBI” or the “Board”). As stated in the Request for Competitive Proposals (“RFP”), questions concerning the RFP had to be submitted in writing via e-mail to the Search Contact by **3:00 PM, CDT, Monday, August 15, 2016**. Responses to questions properly submitted are consolidated into a single Q & A document as detailed below and posted on the Board’s website on or about **August 26, 2016**. The Q & A document does not identify the source of the query.

1. With respect to Exhibit B, #23(a), instead of providing a copy of the requisite insurance policies upon initiation of the contract, is it sufficient to provide evidence of coverage?

Yes, a certificate of insurance prepared by the insurer listing out the required coverage is sufficient.

2. With respect to Exhibit B, #30, does this apply to internal payments to affiliates or employees? Also, what is meant by “a medication of those payments”?

Yes. ISBI needs to be aware of any money that is exchanged with other entities in relation to the provision of these services for ISBI. This does not apply to payments by the contracting party to its own employees. Medication should read “modification.”

3. Would you please describe the structure of your current Emerging Markets Equity program? Specifically, who are the current existing advisors within the asset class, (ie, which strategies are they employing - growth, value, passive, etc.) and their respective AUM? This will help us answer how we might complement the existing advisors.

Northern Trust is managing a passive MSCI Emerging Markets strategy with \$622.9 million, William Blair and Ashmore are both managing small cap strategies with \$138.5 million and \$118.9 million, respectively. In addition, a number of ISBI’s international developed equity managers have a small allocation to emerging markets.

4. With respect to Question 3 in the minimum qualification requirements and certification section, we are looking for clarification regarding the portfolio manager track record. If the portfolio manager currently manages international equity portfolios that exceed \$2 billion and has managed international equity portfolios that exceeded \$500 million for the last 9 years as well as approximately \$400 million for the period of 7/2006-7/2007, would the respondent still qualify and be able to proceed in submitting a proposal to the board?

Yes.

5. We note that the Board’s investment policy permits investment managers to use “best efforts” to meet the 20% minority brokerage utilization target for the emerging

market asset class. Given the nature of the emerging equity market, it is highly unlikely we would be able to meet the 20% target for this mandate. We would make best efforts to trade, subject to best execution, with minority-owned brokerage firms given the significant market structure constraints.

- a. Could you please provide additional clarification regarding the Board's best efforts standard?

Please refer to the most recent Diversity Policy for more information. ISBI does not have a specific goal for Emerging Market Equity; however ISBI encourages the utilization of MWDBE broker dealers.

- b. Does the Board currently trade emerging market stocks with any minority-owned brokerage firms?

Yes.

6. If so, would the Board be willing to disclose such firms?

Yes.

7. The minimum requirements indicate that the respondent will submit periodic written reports on at least a quarterly basis, in addition to any other reporting requested. Are you able to provide clarity on what the "written reports" and what "any other reporting requested" would typically entail?

Written reports would include portfolio performance, market value statements, commentary, and any additional information requested by Staff, the Consultant, or the Board.

8. From reviewing the diversity/directed brokerage policy it looks like there has been no allocation range/objective for directed brokerage trades for EME – is this correct?

Yes, please refer to the Diversity Policy for more information.

9. Understanding that there is an 80bps fee requirement for consideration – is this based on an effective fee based on total allocation? Considerations being if two managers are selected and a tiered fee schedule is used – also is there a preference to a SMA or commingled vehicle?

This is based on the effective fee. ISBI does not have a preference between SMA and commingled vehicles and will choose the most efficient and cost effective vehicle.

10. Question 3 under the minimum qualifications – with regard to the experience of the PM with international equities, is that meant to refer to emerging market equities?

International equities included, but not limited to emerging market equities.

11. Can you confirm if the successful manager would be expected to sign up to your standard form of investment advisory agreement, or that of the managers? If your style of agreement, can you confirm that this would be subject to normal commercial negotiation of the terms?"

We have a standard investor management agreement. This agreement is subject to normal negotiations of terms. Please note that there are certain items that are required by either statute or ISBI policy.

12. With regard to Exhibit B, Representations and Certifications, point 23 relates to insurance:

- a. Is there scope to amend the insurer rating to cover A- by A.M. Best & Company or Standard and Poor's?

Yes.

- b. Our E&O cover is written in the name of our company but would respond to a claim for our negligent acts, errors or omissions in our management of the Account. Can you please confirm that this meets your requirements?

Yes.

13. At the conclusion of the questionnaire on page 17, is the attestation required of the Chief Compliance Officer intended to cover all components of the proposal or only those included in the questionnaire itself?

This attestation is only related to the Q&A section responses and docs provided thereunder. We note that an authorized signer is required for the Minimum Qualification Requirements and Certification which covers items beyond the scope of the questionnaire.

14. Requirement 2: We are an *[International]* asset management firm, registered with SEC as an investment advisor. Is this sufficient? If not, could you please indicate which formalities should be done?

ISBI is not in a position to understand all of the regulatory authorizations, permits, licenses, etc. required for Respondent.

15. Requirement 9: We are not a minority / female / disable owned entity, does this still apply to us?

Yes.

16. Requirement 10: For Public Act 95-0971 Disclosures, we understand that *[Name of Entity]* needs to register as a business entity, but could you please confirm on this point as we are a foreign entity?

The contracting entity must first register with the Illinois State Board of Elections. (<http://www.elections.il.gov/businessregistration/businessregistration.aspx>)

17. Requirement 11: For point 30 in Exhibit B, could you please explain if it's about the fees paid by or on behalf of the mandate "to *[Entity Name]*" or "in general" for the normal running of the mandate?

ISBI needs to be aware of any money that is exchanged with other entities in relation to the provision of these services for ISBI.

18. Will ISBI consider an active value strategy which builds on a leading smart beta product by incorporating proprietary, quantitative insights designed to deliver superior risk-adjusted returns?

Yes.